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A policy of exchange

Paris

1919

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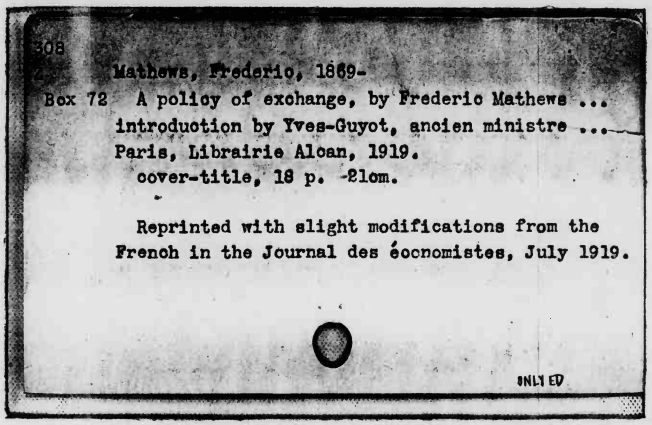
308
Mathews, Frederic, 1869-
Box 72 A policy of exchange, by Frederic Mathews ...
introduction by Yves-Guyot, ancien ministre ...
Paris, Librairie Alcan, 1919.
cover-title, 18 p. 21cm.
Reprinted with slight modifications from the
French in the Journal des économistes, July 1919.
ONLY ED

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TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-4-97 INITIALS: MB

TRACKING # : MSH 21685

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Mathews, Frederic

A policy of exchange

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A Policy of Exchange

BY

FREDERIC MATHEWS

AUTHOR OF

Taxation and the Distribution of Wealth, N.Y.

Membre de la Société d'Economie Politique
PARIS

INTRODUCTION

BY

YVES-GUYOT
ANCIEN MINISTRE
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22 March, 1920 - E.R.W.

A POLICY OF EXCHANGE

BY

FRÉDÉRIC MATHEWS

INTRODUCTION BY M. YVES-GUYOT

Mr. Mathews publishes today in the *Journal des Economistes* a study which I recommend to our readers.

We have already heard of a " united economic front " and of a " single financial front ". But most of these conceptions have the fault of not pushing the subject to its final consequences.

I know the objections to different suggestions presented.

It has been proposed to issue bank-notes based upon the gold reserves of each country. But the Bank of England replies: " The creditor nations will absorb them all. There would be none left for debtor countries nor for those whose sales were slight in relation to their purchases. "

To those who suggested inter-allied loans the following reply has been made:

" There is too great a difference in the credits of different States to permit them being grouped. The credit of the stronger nations would be weakened through the depreciated credit of other states. Such a combination is not possible. "

Such are the obvious difficulties. But the facilities of transport and communication have narrowed the world, the war has solved problems of circulation which were not even examined before, being considered impossible.

After several unsuccessful attempts, in 1913, the United States, with the energetic support of President Wilson founded the Federal Reserve Board which has rendered such service during the war.

Unity in Banking eliminates exchange or reduces it to *gold point*.

Before the war there was a rate of exchange between Paris and Brussels. There would have been no exchange had Belgium been included within the field of the Bank of France. There is no rate of exchange between the State of Florida on the Gulf of Mexico and Washington on the Pacific.

Mr. Mathews suggests that the Allies form a single banking institution based upon the same principles as the Federal Reserve Board.

Mr. Mathews' proposal meets a great difficulty: the restrictive, or protectionist, fiscal barriers. Its realisation however would have the result of opposing the union of international economic relations to their artificial antagonism.

Nearly all the suggestions of an inter-allied financial policy are based upon new paper issues or upon more or less disguised bankruptcy. Mr. Mathews' suggestion is radically different.

There are two causes of the present disorder in Exchange :

1—The inflation of the fiduciary circulation and the continued increase of the floating debt.

2—The excess of our purely destructive importations on account of the war.

Under normal conditions, the individual increases his capital annually. During the war the issue of 35 milliards of bank notes had the appearance of an increased purchasing power. This is an illusion.

During the war, the United States and England lent their credit to France and Italy. By a loan of 1,955 millions francs to England, the Bank of France obtained 9 milliards of available assets.

These agreements ceased with the armistice but it is none the less to the interest of both England and the United States that one of their allies should not become insolvent.

How can the crisis in exchange be releived and normal conditions reestablished ?

It is but necessary to state the causes of the crisis to show that the government should do exactly the reverse of that which has been done.

But there is an international financial method which might solve the problem.

Mr. Mathews beleives the best solution to be the establishment of an International Federal Reserve Board by the Banks of issue of England, the United States, France, Italy, Belgium and of certain neutral powers. There is no question in such a suggestion of creating international bank notes nor of any general "pooling" of loans or assets. It rests on the contrary upon the application of measures already in existence, the value of which has been proven for centuries. The international operations of such an institution would be pertormed by transfers of a money of account.

The financiers of the United States feel the need of employing usefully their surplus of 15 milliards of francs in gold. It is obvious that one cannot ask them to engage the whole amount in an international reserve. That would be folly. Nor should they be the only investors. They can, however, contribute largely and form an important asset in such an international understanding.

It is not by words nor prayers nor recriminations; nor by anti-economic measures that the crisis in exchange may be met. It is but by intelligent financial measures which should be examined in a broad international spirit.

Y.-G.

A POLICY OF EXCHANGE

Wanted — A Policy
The Times, London

Let us try to have a policy
Le Temps, Paris

" The intelligent workmen of all countries are today groping for a policy " says the Labour Minister of New South Wales.

" By a Policy " says the *Times* " We mean a definite line of action based on clear principles. "

Have the Allies then no policy? No definite line of action? Why are these great journals and " the intelligent workmen of all countries " not satisfied? There are two places where policies should be framed today: the Quai d'Orsay and the Allied Parliaments.

The Conference and the Problems of Today

The Peace Conference met to apply certain principles to conditions existing when the principles were framed. The conditions either no longer exist or are radically changed, the vital issues today are : I Strikes.—II Unemployment.—III High Prices. — IV France and Exchange.— V Debt.—VI Labour.—VII Russia.—VIII Germany.—IX The Solution.

These are the problems of today. The Conference can but attempt to meet them through strengthening the Allies by means of an International League. It is in fact but through International action that these issues can be met with any hope of success. The form in which the Conference approaches such union is the " League of the Nations ". What its policy, its " line of action ", will be no one knows. One can but wait and see. But vital issues will not wait. These are not questions for vague parliamentary deliberation next year or the year after, but existing conditions which force action today.

II Strikes

What are the Governments doing? What is their policy faced by post-war industrial conditions?

Any man familiar with political and economic history could predict what the Allied administrations will do today in order to meet these conditions. Governments always do exactly the same thing and produce exactly the same results. The problems are: Strikes, Unemployment, High Prices, Debt.

Strikes with perfect regularity produce the following measures:—Conference, compromise, expedient or suppression, and—a deferred decision. This method of meeting strikes will simply increase their number. Before the war, as the Archbishop of York pointed out in the House on February 25th, strikes increased in England alone during 1910-1913 from 531 to 1497. In the United States, from January to August 1919, the increase is given as from 105 to 308. 2,000 "strike situations" are said to exist (*Matin*, Oct. 1, 1919). This is the practical result of the policy before the war; we are applying the same policy today. There was an increase in the number of strikes in three years before the war of nearly 300 per cent. They will probably increase much more rapidly today. Where one wave subsides, another is preparing. As the Times says "We are drifting towards violence."

II Unemployment

In order to avoid the danger of violence, Governments will try to absorb the unemployed. They always adopt the same measures and always produce the same results. In order to absorb the unemployed at home they will tax or prohibit the importation of foreign goods. Even England has maintained a certain amount of exclusion. This exclusion is for the purpose of stabilizing the demand for labour in order to stimulate production. For these and other reasons, France has adopted a policy almost completely prohibiting imports. The measures are always the same, the results never change. The results are that prices will be forced up in proportion to the prohibitive policy. More strikes will occur. Prices will rise still higher. Unemployment will appear in industries affected by the higher level. In England, the returns show the officially unemployed to be over half a million in August.

Thus, the measures adopted today in order to absorb the unemployed will do just what they did before the war. They can

produce no other result. They will absorb the unemployed in one direction, force up prices everywhere and shoot a greater number of unemployed out of the industrial hopper in other directions. That is the practical result. Everything tends in one direction.

III High Prices

Where food is short and prices are forced up by taxation and prohibition, State Control steps in. The results are the same as usual. A certain amount of benefit may be shown in one direction but the total general result is an increase of the evil. This of course demands more State Control; prices go still higher; and round and round we go as before. State Control of vital necessaries creates great opportunity; not necessarily for dishonest measures, but simply for "Control" and this nearly always puts up prices. What becomes of the 35-45 shillings difference in the price of a ton of coal paid to the miner or by the consumer in England? "Control".

It is obvious that "Control" always falls into the hands of those most interested, as Lord Emmett, Chairman of the Consultative Council on Import Restrictions, has noted. "Lord Emmett was strongly of opinion that all the sub-committees should contain a majority of impartial people and not of representatives of affected interests. In these circumstances he had no alternative but to resign his post." (*The Times*, March 21, 1919.)

"What disquiets us," says Mr. Walter Runciman, is the "handicap under which every trade is now conducted. The "brains of the business man and the budget of the consumer are "overburdened by Orders in Council. And all this tangle of "arbitrary regulations has piled up a terrifying structure of false "prices on a foundation of sand."

IV France and Exchange

The financial situation of France is as much an English and American problem today, as Ireland or the Pacific coast. If France gets in trouble, all the Allies will be involved.

The parliamentary debates present the situation as follows:

Debt	200 milliards
Pre-War Budget.	5 1/2 milliards
Post-War Budget (should be).	20 milliards

In addition to this the Minister of Finance has been authorised to increase the issues of the Bank to 40 milliards and the loans to 26 milliards.

To any man who understands the words " national finance " this situation has direct meaning : it means that the financial situation of France demands immediate attention. What is the Administration doing?

Just as one could predict what England would do faced by strikes and unemployment one could predict what France would do faced by these financial conditions. The value of the franc will fall and the Spectre of " Exchange " will rise. As ever, the same familiar measures and the old familiar results will appear. Where a monetary unit falls, the same cause is always invoked : the financial Balance—" Exchange ". The same remedy is always applied : Prohibition of Imports.

The northern regions are not only starving but rotting from devastation. Every man of the north is trying to get to work, trying to produce, trying to employ the old hands as they come back from the Army. " Exchange " says the North must continue to starve and rot.

Every kind of service will be supplied for the reorganisation of the North. Every kind of assistance in the form of functionaries and purchasing agencies will appear at every step, but when a man wants tractors to sow crops, machines to produce goods or cement to build a house—he cannot have them: " Exchange," Senator Hayez of the Department of the North says that 300 tractors were ordered in England. Impossible to get them : " Exchange " makes it impossible for the Frenchman to raise his own crops and then forces him to send his money out of the country to buy the food of the foreigner. They need cement to rebuild. They cannot get it in France. There is plenty of it at Tournai, a stone's throw away--they cannot touch it--" Exchange." An important industrial whose plant was ruined by the Germans, ordered new machinery in America. It is completed. He could employ several thousand hands at once and begin to export. He cannot import his machinery: " Exchange ". His workmen join the unemployed. His industry is destroyed—" Exchange". Judge Walter Berry, Président of the American Chamber of Commerce in Paris, cites the case and says : " France can neither become great in the markets of the world, nor can she become prosperous at home, until the spectre of " Exchange " is laid.

The Frenchman can study " Exchange " and " Control " at work in the flames that destroy American supplies before his eyes or in the " Cemeteries " of material allowed to rot at Epernay and elsewhere. " (*Matin*, June, 17 1919.)

The spectre can take a thousand forms. It starves Frenchmen in the form of a depreciated franc. It can starve Englishmen just as well in the form of a depreciated mark. This is the way it appears in England. Say the mark falls in New York, so that the German who used to sell a knife for a dollar, or 4 marks, will get 12 marks. His knife has apparently tripled in value on account of " Exchange ". His industry is correspondingly subsidized. Ergo : English industry in Birmingham must be protected and all competing American, French and German goods must be taxed or prohibited in order to avoid this " unfair competition ". The same reasoning applies to a French franc.

But Exchange must run in favour of some country. America : —This is the way it works.

The National City Bank gives the Balance of trade for 51 Months of war as £ 2,000,000,000. Before the war it never exceeded £ 130,000,000. Thus, the dollar must have gained such enormous " exchange " value, that all must be rich and happy. What are the facts?

" Cost of living too high.

" Official Action probable in the United States.

" High officials of the American Government are showing " uneasiness over the continued numbers of working men unable " to find positions. Mr. William C. Radfield, Secretary of Com- " merce, on behalf of other Government leaders, has sent a " message to President Wilson, requesting permission for the " appointment of a Government Board to fix after-the-war prices " for the purpose of trying to reduce the cost of living.

" Labour leaders agree with the economic experts that prices " must be reduced before the employment situation materially " improves, but how this will affect wages is causing much " uneasiness.

" Nevertheless, the situation demands quick action. The " Clyde Steamship Company has decided to suspend three of its " coast-wise lines, because Labour conditions make it impossible " to handle the goods. This move is considered symtomatic of " the present conditions, which may reach a deadlock, causing an " enormous slump in production, unless high costs are cut down

"and the working men agree to face the facts as they exist.'. (*Daily Mail*, Feb. 12, 1919.)

After eight months of restriction and control in face of this situation, President Wilson says to Congress on the 8th of August that high prices in America were not justified by shortage of supply but were deliberately created by "vicious practices." He adds to the Railway men at the White House on the 25th that the present crisis might "have more effect upon the happiness, the prosperity, and perhaps even the life of this people than the war itself."

Attorney General Palmer says at Albany, September 19, that the packers' organization of Chicago not only controls 75 per cent of the meat consumed in America but a large proportion of all meat substitutes.

There it is : High prices, strikes and unemployment, in spite of the most favourable Exchange any nation has ever seen. America has "Control" and "Exchange" just as have England and France. The result is exactly the same.

"High prices and unemployment are becoming alarming," on one side, on another, however, the Senate piles up restrictive taxes as high as possible and votes enormous appropriations in order to keep up the price of wheat — "Control", while at the same time the people are taxed more hundreds of millions in order to send wheat out of the Country which they need at home — more "Control".

The continuation of such a system will simply tend to close the markets of Europe for American products and to encourage German exportation. This result is already shown in the suggestion of presenting to Congress a measure to create a billion-dollar national trust society that "would tend to stabilize exchange and so allow American merchants to find a market in countries where the dollar is now at such a premium as to prohibit the purchase of American goods." (Paris, *N. Y. Herald*, May 27, 1919.)

So, the spectre of Exchange always works the same way and wherever found, like "Control", always produces the same results. The spectre is however especially dangerous in France. France needs every assistance, every possible market and financial support. "Exchange", however, says, that she must be taxed and starved and must shut the door in the face of England and America. The reply is always the same : "If they

will not take our goods, we will not take theirs." Thus, France is not alone starving herself, but shutting the markets she needs in her own face. It never changes. The spectre controls the situation. Few men possess the knowledge and intelligence to understand it. It is useless to explain it. It is explained in every authoritative work on finance and economics. Daniel Webster called it "an obsolete and exploded notion" in the American Senate a hundred years ago. Mr. Artaud, President of the Chamber of Commerce of Marseilles, explained it recently in the columns of the *Temps* (April 21, 1919). It is all to no purpose. "Like Macbeth", says Judge Berry, "the French authorities seem to be hypnotised — even terrorised by the spectre." But while arguments, knowledge, intelligence and facts are powerless to reach "Exchange"—there is too much money to be made out of it—the spectre astride the Golden Calf simply grins at them ; there is one simple financial measure that can largely eliminate "Exchange" in inter-national relations. It may be as useless to mention it, however, as to have told our enlightened ancestors that witch burning was a waste of time. Nevertheless, here it is :

If the Allies bring the Bank of England, the Federal Reserve Board and the Bank of France together, they can form a Central Allied Bank, or Clearing House. This Bank can clear international obligations, administer its own assets, based on Allied Credit and Gold Reserve, and thus control and stabilise international exchange. There need be no question of inter-national bank notes, new paper issues nor of the "pooling" of loans, obligations or assets. All that is essential is the intelligent inter-national application of financial economic principles which have stood the test of centuries of experience in every great nation of the world. In other words : an International Federal Reserve Board.

Such an institution can do more to unite the Allies than any possible diplomatic negotiations and agreements and would form the foundations of a real League of Nations at once.

Unless this is done, "Exchange" will scatter the Allies, as the wind can scatter toy-boats. Nothing can keep them together as long as "Exchange" controls their minds.

The financial situation in France demands immediate action in the opinion of every man who understands it.

"Today", says the *Journal des Débats*, "sensible men are discouraged; they are letting themselves be led. The Federation of Railwaymen, the Federative Union of the Employees of the State, the Departments and the Communes voted the following Order of the day :—Resolved : To make the necessary propaganda, in order... to unite the entire administrative proletariat as soon as possible, with the C. G. T. in order to organise a new Society more human and just."

When that is put beside a 200 milliards debt, a 20 milliards budget, 40 milliards paper issues and the loans of the Bank of France; to any man who can read the signs of the times, this is what it means :—it means that the ship of state is rapidly coming up into the wind, that the helm will be forced down, that she will tack and lay a new course. It also means that she is not unlikely to founder.

That Order of the Day is like an S. O. S. from a ship in distress that has lost her compass. There may be but one compass that can lay a course clear of the Rocks :

An Inter-Allied Financial Control;
An Inter-Allied Bank;
An Inter-Allied Reserve;

V Debt

"Germany must pay for the war". Had the Germany indemnities been "sold short" on the Exchanges, it would be interesting to compare the quotations of November 1918 and those of today. The chances are that they would not have appreciated.

The fabulous obligations of the Allies however create a situation which must be faced, whether Germany pays or not.

The fiduciary Institutions of the United States, before the formation of the Federal Reserve Board, had no single reserve system such as that represented by the Bank of England. The result was that the country was subject to financial panics which would sweep over it like flames. Where one Institution got into trouble fifty others might be involved.

During the last great panic in New-York Mr. Morgan called a conference in his library. The situation had reached a point when it was necessary to stop the "runs" and save the country. "So many millions in cash," he said, "subscribe". It took many millions and the Conference began to "confer". Mr. Morgan

went to sleep. When he woke, the Conference was still "conferring", the paper still blank. He took another nap. Then, on awaking again, "Come", he said "it is getting late : subscribe." They subscribed.

Money, sound money, real money was the one thing that could save the situation. Nothing else could touch it. It was useless to "confer" about "Leagues" of Institutions, "Covenants" of Banks, or anything else.

The Allies today are in a situation exactly analogous to that of the fiduciary institutions of the United States in the last panic. They have no cash in common, they have no central reserve.

A "run" has been started upon the Banks of civilization : that is a run affecting the solvency of the Nations. Russia has failed and closed her doors, Turkey has followed suit, Austria is not far behind, Germany is sinking rapidly, and France?... And England?... They are all under full paper sail and they are all coming up into the wind. If they cannot tack and lay a new course together, they will be driven apart by the tides of "Exchange" and may be wrecked on the Bolchevist Rocks.

They need a compass in common, and there is but one way to get it. The same way, as was adopted by the institutions of the United States after the last panic : A single Central Reserve. If one founders they all are involved.

The power that drives them apart to-day is "Exchange". It takes a thousand forms that few men see or understand. If many men saw or understood them the Peace Conference would have acted at once upon the one word : Finance. But instead of sound money and solvency at the helm, "Exchange" has full control. The paper sails are everywhere spread and the fiscal winds of insolvent seas are filling them more and more. There is but one way to bring them up into the wind together and face the seas as they come : the creation of an Allied Federal Reserve Board.

The object of such a centralised Allied Economic and Financial administration should be as follows:

1 — Stabilize exchange.
2 — Increase production.
3 — Open markets.
4 — Check the rise in prices.

The way to stabilize exchange is not to raise barriers everywhere between the people and their needs in hopes that some mysterious "balance" may have an influence which never appears; but the following :

a) Facilitate all international commercial relations, which would increase the receipts of the Treasury and reestablish the basis for a system of taxation in place of the present system of loans.

b) Use the reserves in order to protect institutions embarrassed by increasing rates; which would increase confidence and credit.

c) Increase the gold reserves and check paper issues as far as possible by a radical policy of economy and taxation in place of the present orgie of paper and restriction, which would tend to bring the monetary units to their normal relation.

The way to increase national production is not that in practice now. Take the devastated regions for example. What is done at present in order to realise their normal value is to surround them with an indefinite number of taxes, restrictions, functionaries and agencies in order to monopolise the control of their purchasing power and shut their natural sources of supply. What should be done on the contrary is to lower the duties as soon as possible in order to give them the machinery and raw material they require, and at the same time, to give them the necessary markets in England, America and elsewhere.

The foregoing measures alone can arrest the rising tide of prices, increase production and take the necessaries of human life out of the control of interested individuals.

This is exactly 'what an Inter-Allied financial organisation could do :—extend credit where there is money to be made, labour to be employed, markets to be opened and values to be created. If any bank or industry should be embarrassed or endangered by such measures, such an institution would be able to protect it at every step and aid it in passing the critical period.

Under existing conditions the difficulties may seem too great. The chief of these appears to be that in any inter-allied financial union the stronger powers appear to carry the weaker and to be proportionately handicapped. Under proper organisation and control no such difficulty occurs. Have the stronger institutions of the United States been injured by the formation of the Federal Reserve? Would they have been had every State of the Union been surrounded by a ring of restrictive taxes and prohibitions? Are the larger financial organisations of England weaker on account of the common reserve held by the Bank?

"The problem of financing Europe," as Mr. Henry P. Davison of J. P. Morgan & C° well says, "must not be regarded in any altruistic spirit, but as one of the essentials of American prosperity. He suggests the "formation in Europe of a committee to coordinate the demands of all countries." (*Daily Mail*, June 17, 1919.) There are the germs of an inter-allied Bank.

If the future of the Allies is to contain any constructive policy it should be based upon three things: Sound money, solvency and a central reserve.

VI Labour

The Labour problem lies at the base of most problems to-day and is likely to dominate those of the future. The one working attempt to solve it is that of the Russian majority Socialists or Communists. This is the way it works:

The Communists expropriate the Capitalists; then production ceases. No more money comes into the Treasury. Out goes the Communist paper. This is the happy time for the Communist. He then enjoys himself shooting the Capitalists or watching them clean the streets while he smokes the Capitalists' cigars.

It will seem an earthly Paradise. But here the trouble begins. The Communist must eat as well as a plain ordinary Capitalist. He cannot live on cigar smoke and paper money for ever. The men on the land produce the food. The Communist in the City produces nothing but paper money. He can force paper for food, but he cannot force food for paper. His paper comes back to him in taxes. He must eat it or die. He may make a great fuss for a time with his Assignats, his Mandats, his John Laws and his National Workshops, with his Kerenskys and his Trotskys or his paper marks, but he cannot last. The best he can do is to float for a time in a paper balloon and break his neck when he strikes land. The real producers bury him and the thing begins over again. There is nothing new or fundamental in that Russian system, just as there is nothing new or vital in the economic futilities of existing governments. It is a dreary old story by well-meaning men written in hunger and paper and blood. A real man wants real money and as little hunger and blood as possible.

The reason Labour has never had its normal share in total wealth is largely owing to the restriction of industry through the Control of complicated fiscal system by Capital. Where the

Control is based on false economic theories, as at present in Europe and America, it is possible to hold Labour in a fiscal vice and force the blood out of it. Where these systems can be simplified and unified it will no longer be possible to control the flow of a Country's earnings. Capital will have normal opportunity for investment, and Labour will get its share as decided by the natural laws of supply and demand. This however requires a new modification of the existing system ; there is nothing new in Bolchevism whatever.

It has been well said that the Labour problem is the Master problem. But no Master problem can be solved with paper money. Labour represents real men ; Labour represents producers and real producers want real money. If there is any solution to the Labour problem this may be the Master key :—

One International Bank
One International Control
One International wide-open door.

With this key in hand it is possible to approach many problems which cannot be touched without it. It would be possible to reduce a great part of indirect tax burden, through the elimination of restriction systems. This would mean new markets. Again it would be possible to relieve Labour of a large portion of the taxation of vital necessaries, through direct and more economical methods. It would also be possible to unlock the productive powers of the land in different forms.

VII Russia

Such a central inter-allied Bank could be of great value in the ultimate liquidation of the Communist government and in the future development of Russia.

VIII Germany

The paper floods at present gushing from Berlin undermine the value of all German money. The resulting exchange will complicate all relations between the Allies and Germany and at the same time give strong impetus to German exportation. A properly organized inter-allied bank dominating the post-war finances of the world could have great influence in bringing order into German affairs.

IX Conclusion

One of the pathetic things in Europe to-day is the way "Old Europe" looks to America for a gleam of hope, for a spark of imagination. This is what President Wilson says: "My present business is to understand what plain men everywhere want. It is perfectly understood in Paris that we are not meeting there as masters of anybody. We are meeting there as servants of, I believe, about 700,000,000 people, and that unless we show we understand the business of servants, we will not satisfy the world."

The world places all its resources at the disposition of a select body of men and looks to the Conference for the solution of complicated problems. The Conference looks to America, America looks to President Wilson and President Wilson says modestly he is but a servant and that his business is to understand what 700,000,000 plain people want "everywhere." It may take some time for those 700,000,000 to make up their minds and in the meantime things are moving.

There is the trouble with the Conference and its policy. It is a democratic representative of democracies, based upon the theory that King Demos knows exactly what he wants and has the power to express his opinion. His representatives are "servants" and serve the dishes he orders cooked with the sauce he has shown them how to prepare. On this theory King Demos is a great gourmet who knows all about the difference between a national loan cooked in a national Bank or in the open market. He is a great connoisseur in the taste of a delicate rate of Exchange and has pronounced views about the "bouquet" of extra-legal liquids in a country he never saw and of which he knows nothing. The servants simply stand about to serve the "plats" he prefers. Their "business" is to understand what he wants. It would not do to tell him that he has no idea what he wants and that he looks much more like a helpless, speechless, inarticulate 700,000,000 pound baby covered with flies and wasps and blood-sucking leeches, while ignorant nurses stuff him with vile indigestable paper pap, than a connoisseur king at a banquet.

There is the danger of the future of the Allies. The mixture of paper and taxes with which they are being stuffed at present may explode and blow up the 700,000,000 pound baby, the "servants," the nurses, the flies and the wasps all at the same time.

If the people of England and the United States are unable to avoid the dangers which menace them on the continent and in their own fiscal systems, President Wilson says the result may be "unthinkable." Mr. Lloyd George says "Civilisation may be shattered into atoms." That seems exactly what may happen and such a situation demands expert control.

The Allies to-day have the same need for centralized control and responsibility in administration and finance as they had not long since in military affairs. Without centralising responsibility there was no victory, without it there will probably be no lasting peace.

The difficulty with the Conference is that it is a democratic representation of apparently divergent interests, just as was the case in Allied military operations before the centralization of responsibility. On account of these apparently divergent interests the Conference can face no problems without meeting endless difficulties at every step.

Practically all these difficulties may be grouped under two heads: 1. Economic 2. Territorial.

Under the direction of a properly organised inter-allied Federal Reserve Board these problems could be examined in their ensemble and President Wilson's third "point" gradually put into practice: The elimination of economic barriers as far as possible which would probably mean the elimination of these problems "as far as possible."

The solution of nearly all territorial problems might be assisted by a Central Inter-Allied fiscal control. The bulk of these problems is caused by restrictive taxation. Where importation and exportation are allowed to depend upon the vital needs of the people the majority of international complications traceable to frontiers disappear.

As far as the League of Nations is concerned it seems safe to say that it will never have an effective existence without one essential corner-stone—A Central Bank.

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